California MEDICINE

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EDITORIAL

The Keogh Bill

IN THE PAST ten years physicians throughout the country have paid tribute to one Keogh, a member of the House of Representatives. He is the man whose name has consistently been linked with a legislative bill to permit self-employed persons to take a tax deduction for funds they put aside into a retirement program.

This bill has now been approved by both houses of the Congress and signed into law by the President. It goes into effect January 1, 1963, which means that these self-employed persons will be able to take the tax deduction in April, 1964, on their calendar year 1963 income tax returns.

In the glad tidings flowing from the passage of this measure, it would appear that the name Keogh, while still remembered, means little more than Smith or Jones to the great number of physicians who will get both a measure of tax relief and a measure of retirement stability from this new law.

To set the record straight, Mr. Keogh is a resident of Brooklyn, N. Y. His full name is Eugene J. Keogh, he is a law graduate of New York University and Fordham University Law School, and he was serving as a member of the New York State Assembly when, in 1936, he was first elected to the Congress. He has been reelected regularly since that time. He is a Democrat.

Mr. Keogh first put his bill into the Congress ten years ago. It got nowhere at the outset but within a few years had attracted support from other Congressmen. About six years ago it was adopted by the House of Representatives but died in the Senate. This history was repeated in each session of Congress until 1962, when the Senate also passed the bill. There was speculation that the President might veto the measure, even in the watered-down form of its adoption, but facing the prospect that a veto would be overridden, he signed it.

In its present form the Keogh Law will permit self-employed persons to establish retirement programs and to deduct half of the program cost, up to a maximum of $1,250 in deductions, from their income tax returns each year. The deduction is from gross income, not from taxes payable.

The law also requires that a self-employed person setting up his own retirement plan and claiming the tax deduction must also set up a retirement plan for his employees who have been in his employ for three years or more.

On retirement, the self-employed person will be subject to income taxes on his cash receipts from his program. Thus tax deductibility for cost figures now will result in tax charges when funds are drawn from the program. This is a tax break for the individual in that today's deductions will take gross income from the top tax bracket, while income after age 65 will call for taxes on a presumably decreased annual gross income.

These are the basics of the law. Like most federal legislation, the Keogh Law is a skeleton on which regulatory rules and regulations must be draped by Internal Revenue Service. The usual procedure is for IRS to draft rules and regulations and to submit them to public hearings. Facts developed in such hearings will then be incorporated in revised rules, which will again be put up for public scrutiny.

These procedures will take several months at least. Thus those directly benefited by the law will not know until some time in 1963 the procedures that will qualify or disqualify a specific retirement program. Since no income received before January 1, 1963, will be affected, the taxpayer will have until April 15, 1964, to claim his own tax deduction for his own plan.

Meanwhile, the woods are rapidly filling with tax consultants, investment advisors, insurance agents and a host of "experts" willing to sell their own plans or programs to the self-employed persons who are finally getting a tax break.

The Council of the California Medical Association has noted this influx of advisors-with-portfolio and has agreed on a simple statement at this time: take your time and don't rush into a program until all the facts are known.

An individual who starts a program now, in the absence of official ground rules, is running the risk that his plan may not meet the qualifications of the regulations yet to be issued. It would be most unfortunate for a physician to contribute to a plan developed hurriedly and find out, a year later, that the plan is not qualified and that his contribution to it is not tax deductible.

Because of the extreme interest which physicians have demonstrated in the Keogh program, medical society offices have been in the forefront for visits by the "experts" who have their own plans to sell. For this reason the Medical Executives Conference, comprising the top staff members of the C.M.A. and the component societies, has entered into a study of the new law with full knowledge of the implications inherent in this type of legislation.

At the last Council meeting the conference made a report which could be summarized in two words: go slow.

The Medical Executives Conference has established a special committee of its members to delve into all aspects of retirement plans for the self-employed. This committee will follow the progress of rules and regulations as they are developed and finally adopted and will be in position to offer suggestions for the guidance of all physicians.

The C.M.A. Council has warmly applauded this move, has voted in favor of the concept of such a committee and has agreed to consider requests for such modest financing as the committee may need for tax, accounting and investment consultants.

The Council has recognized the present situation as one which will attract any number of salesmen, each with his own concept of an acceptable program and each with his silver tongue adjusted to the desire of each self-employed physician to provide for his own future and to gain a small measure of tax relief in the process.

The unanimous decision of the Council and of the staff executives of the state and component societies is: Go slow!